

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
OCTOBER 1, 2000 TO DECEMBER 31, 2000**



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January 11, 2001

The Honorable Vincent F. Callahan, Jr., Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period October 1, 2000 through December 31, 2000.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

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EXECUTIVE SUMMARY

A STUDY TO DETERMINE THE EXTENT THAT OWNERS RECEIVE TAX RELIEF FOR UNQUALIFIED VEHICLES UNDER THE PERSONAL PROPERTY TAX RELIEF ACT OF 1998

Senate Joint Resolution 127 required our office to review the extent to which owners received tax relief under the Personal Property Tax Relief Act of 1998 for unqualified vehicles. The 1998 General Assembly enacted the Personal Property Tax Relief Act (the Act), which provides tax relief on personal property taxes paid on the first \$20,000 of value for qualifying vehicles. The Act includes provisions for the phase out of the tax on qualified vehicles over 5 years. The Act also defines qualifying vehicles and requires that the vehicles' use be for non-business use.

FINDING

We have determined that local Commissioners of the Revenue cannot enforce the provisions of the Act for determining if a vehicle's business use exceeds the levels set by statute. The current process does not provide Commissioners of the Revenue information on vehicles used for business purposes that do not qualify for tax relief under the Act.

Also, the current process does not adequately inform the public of how they should report their vehicle use to comply with the laws of the Act.

RECOMMENDATION

If the General Assembly wishes to have the Commissioners of Revenue enforce the provisions of the Personal Property Tax Relief Act of 1998 concerning unqualified vehicles used for business purposes, the General Assembly will need to have the following done.

1. The Department of Taxation must provide the Commissioner more information about who is claiming a deduction or expense and information about the vehicles.
2. The Commissioner must provide taxpayers information about the provisions of the Personal Property Tax Relief Act of 1998 concerning unqualified vehicles used for business purposes both when the taxpayer initially registers the vehicle and during the billing cycle. Commissioners and Treasurers must require taxpayers to certify the vehicle use at registration and billing.
3. The Department of Motor Vehicles must require vehicle dealers and leasing companies to certify use of vehicle at registration and provide this information to Commissioners.
4. The General Assembly may wish to provide some incentive to the Commissioners for enforcing this provision and defraying the cost of the information.

A STUDY OF ELECTRONIC COMMERCE: AUDITABILITY AND OBSTACLES

We have determined that audits of public accounts can satisfactorily occur in an environment using electronic procurements, contracts, and transactions.

We identified several statutory and regulatory obstacles that are contained within this report. The success of e-commerce relies on addressing these obstacles. Some of the recommendations are as follows:

The Secretary of Technology must establish information technology guidelines and standards for agencies to follow when implementing e-commerce.

The General Assembly should re-evaluate the assessing of fees when citizens pay taxes, licenses, and other revenues by credit card, particularly where agencies can demonstrate that the use of credit cards can reduce administrative costs.

The General Assembly may wish to determine if the Virginia Freedom of Information Act should provide additional protection of credit card information.

The Virginia Public Procurement Act provides policy statements, such as encouraging competition and facilitating small business participation. The General Assembly should determine the most appropriate action to take concerning these policies in light of e-commerce.

The Departments of General Services and Accounts should update their manuals to allow for the use of e-commerce.

Agencies should recognize the need for continuous training of managers and internal auditors on e-commerce and the changes in business processes and internal controls that can result.

To successfully implement the Commonwealth's e-procurement solution, there is a need to: develop data integrity, authentication and non-repudiation controls; mandate that agencies transfer purchase data to the central data warehouse; and include EDI as a payment method within the e-procurement system.

Senate Joint Resolution 72 required our office to study electronic commerce to:

Determine whether audits of public accounts can be satisfactorily conducted using electronic procurements, contracts and transactions; and,

Identify any statutory or regulatory barriers or obstacles, which may prevent the implementation of electronic contracting and electronic procurement processes that are envisioned for the Commonwealth.

REVIEW OF VIRGINIA COURTS MANAGEMENT OF UNPAID FINES AND COSTS

The Auditor of Public Accounts has reviewed the management of unpaid fines, fees, and costs assessed in Virginia's courts to:

- Determine the results of court collection efforts, including those methods used by Commonwealth's Attorneys for delinquent accounts;
- Consider alternative methods for improving the collection of fines, fees, and costs; and
- Compare the costs related to the collection efforts used.

We found that law changes and improvements in the recording and reporting of delinquent accounts have strengthened the collection process. Over the last six years, more than \$124.3 million in delinquent fines, fees, and costs have been returned to the Commonwealth.

We recommend that:

- The General Assembly consider legislative changes, which provide opportunities for achieving economies of scale in collecting delinquent accounts;
- Commonwealth's Attorneys award delinquent account collection services contracts on a competitive basis;
- The Supreme Court continue to improve automated systems accounts receivable management processes and user training; and
- The General Assembly may wish to consider addressing the role judges and court personnel have in collecting fines and costs.

We also recommend that the General Assembly consider removing the requirement that the Auditor of Public Accounts perform continuing special reviews of the court system's collection efforts and methods for unpaid fines, fees, and costs. Recently established oversight of collection procedures by the Supreme Court and the Compensation Board as well as our on-going audits of courts and clerks of the circuit court should provide adequate review of this process in the future.

SMALL PURCHASE CHARGE CARD PROGRAM

The Small Purchase Charge Card program has been effective in reducing paperwork and streamlining the small purchases of goods and services. The Commonwealth has recognized cost savings from the program.

Our objective was to determine whether the program has controls that minimize the risk of undetected, unauthorized use of small purchase charge cards. We found weaknesses in the administration of the Charge Card program that could hinder the timely detection of unauthorized use of small purchase charge cards.

- There are no limitations on the number of charge cards issued to an individual or on the number of employees with charge cards within an agency. Also, most charge cards are issued with higher purchase limits than necessary.
- The charge card contractor authorized transactions and issued cards that exceeded established dollar limitations and processed transactions made with expired or cancelled charge cards. Also, in most cases, the contractor does not provide reports with sufficient purchase details.
- We also identified a training issue that hinders the effectiveness and efficiency of the Charge Card program.

Our recommendations include:

- Agencies should analyze purchasing needs before setting cardholder transaction limits and limit the number of charge cards to those employees whose duties routinely involve small purchases.
- The Department of Accounts should monitor charge card transactions to ensure that the charge card contractor does not allow cardholders to exceed purchasing limits or authorize transactions or issue cards that exceed purchasing limits.
- The charge card contractor should provide automated billing statements with detailed purchase and vendor information.

The Department of Accounts, the Department of General Services' Division of Purchases and Supply, and the charge card contractor should develop an updated, continuing training plan and require training attendance before charge cards are issued.

SUMMARY OF REPORTS ISSUED

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The following reports on audit were released by this Office during the period October 1, 2000 through December 31, 2000. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Legislative Branch

General Assembly and Legislative Agencies and Commissions of the Commonwealth of Virginia, Financial Report for the fiscal years ended June 30, 2000 and 1999

Judicial Branch

Public Defender Commission for the two-year period ended June 30, 2000
State Board of Bar Examiners for the two-year period ended June 30, 2000

Executive Departments

Administration

State Board of Elections for the eighteen months ended December 31, 1999*
Virginia War Memorial Foundation and Selected Agencies for the year ended June 30, 2000

Commerce and Trade

Virginia Commercial Space Flight Authority for the year ended June 30, 2000
Virginia Racing Commission for the year ended June 30, 2000

Education

Department of Education including Direct Aid for Public Education, the Virginia Schools, and Foundation for the Deaf and Blind for the year ended June 30, 2000
Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2000
Southwest Virginia Higher Education Center for the year ended June 30, 2000
Virginia's Museums for the year ended June 30, 1999*

Colleges and Universities

The College of William and Mary, Intercollegiate Athletic Programs for the year ended June 30, 1999

University of Virginia for the year ended June 30, 2000*

University of Virginia, Intercollegiate Athletic Programs for the year ended June 30, 2000

University of Virginia Medical Center for the years ended June 30, 2000 and 1999

Virginia Polytechnic Institute and State University for the year ended June 30, 2000*

Virginia Polytechnic Institute and State University, Intercollegiate Athletic Programs for the year ended June 30, 2000

Finance

Revenue Stabilization Fund dated November 30, 2000

Health and Human Resources

Governor's Employment and Training Department for the period July 1, 1999 through November 21, 2000

Public Safety

Department of Alcoholic Beverage Control for the year ended June 30, 2000*

Technology

Department of Information Technology for the year ended June 30, 1999

Department of Information Technology, Service Organization Review, Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness as of March 31, 2000*

Innovative Technology Authority for the year ended June 30, 2000

Innovative Technology Authority and Center for Innovative Technology for the year ended June 30, 2000

Virginia Information Providers Network Authority for the year ended June 30, 2000

Transportation

Virginia Port Authority for the year ended June 30, 2000

Independent Agencies

State Corporation Commission for the year ended June 30, 2000
Virginia Public Broadcasting Board for the year ended June 30, 2000
Virginia Retirement System for the year ended June 30, 2000*
Virginia Workers' Compensation Commission for the period April 1, 1999 through December 31, 1999*

Special Reports

A Study to Determine the Extent that Owners Receive Tax Relief for Unqualified Vehicles under the Personal Property Tax Relief Act of 1998, Report on Senate Joint Resolution 127 dated December 2000*
A Study of Electronic Commerce Auditability and Obstacles, Report on Senate Joint Resolution 72 dated November 2000
Century Date Change Initiative Project Office as of March 31, 2000
Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2000 to September 30, 2000
Review of Virginia Courts Management of Unpaid Fines and Costs dated November 20, 2000*
Special Review – Small Purchase Charge Card Program dated December 1, 2000*

Clerks of the Circuit Courts

Cities:

City of Hopewell for the period July 1, 1998 through June 30, 2000
City of Radford for the period July 1, 1998 through June 30, 2000

Counties:

County of Arlington for the period April 1, 1998 through September 30, 1999*
County of Frederick for the period April 1, 1998 through June 30, 2000*
County of Greene for the period July 1, 1998 through 9/30/2000*
County of Lancaster for the period April 1, 1998 through June 30, 2000
County of Shenandoah for the period April 1, 1998 through September 30, 2000*
County of York for the period January 1, 2000 through September 30, 2000

General Receivers

Cities:

City of Charlottesville for the period July 1, 1998 through June 30, 2000

Counties:

County of Sussex for the year ended June 30, 2000